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DEVELOPMENT OF A SHIPPING-POINT PRICE FOR TURKEYS

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DEVELOPMENT OF A SHIPPING-POINT PRICE REPORT FOR TURKEYS 1/

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: Marketing methods in selling turkeys have changed considerably in :
: recent years. Direct shipments of trucklots from country :
: processors to chainstore warehouses and other large buyers have :
: greatly reduced volumes handled by old-line central market whole- :
: salers. This change has greatly affected the pricing process :
: which historically has been a function of the central market. If :
: the trend toward more direct marketing of turkeys continues, the :
: location of price reporting must be shifted from terminal markets :
: to some other point or level in the marketing process. This :
: article explores the problems of reporting prices at the process- :
: ing centers. :
:

A survey of turkey processors in Iowa and Minnesota was made during the summer of 1957 to determine if it would be feasible to report prices received by processors at country shipping points for ready-to-cook turkeys. These States were selected as the location for this study because of their importance in the production of turkeys. This article is a preliminary report of the results of the survey which was conducted by the Market Organization and Costs Branch and the Dairy and Poultry Market News Branch, both of the Agricultural Marketing Service. The study is being continued through 1958.

Survey of Turkey Processors

The Des Moines, Iowa, field office of the Dairy and Poultry Market News Branch conducted the field survey of the processors. The specific purposes were to investigate (1) the pricing methods used, (2) terms and conditions of sales, selling costs, and market outlets, and (3) the availability of price information and the degree of cooperation obtainable from processors. In addition, detailed information was obtained from each processor on his last two shipments of turkeys.

A total of 20 turkey processors was interviewed in the 1957 survey and 14 plant managers said they would report prices received. Several turkey processing plants associated with or owned by integrated firms were not included in the survey because such firms usually do not sell their products at the country plant level.

Results of the survey indicated that it would be feasible to report net prices received at shipping points for ready-to-cook, USDA inspected, frozen turkeys sold in carlot or trucklot quantities. These are the characteristics of most of the processed turkeys moving into marketing channels from August through January.

1/ This article was prepared by John R. Pedersen, Agricultural Economist, Market. Res. Div., Agr. Market. Serv.

Weekly Collection of Prices Received

Weekly price collection was initiated in November 1957 on a trial basis to test the feasibility of market news reporting of prices received. Fourteen large turkey processing plants in Iowa and Minnesota were telephoned each week by the market news reporters in Des Moines for price information on rail and trucklot sales of USDA inspected frozen ready-to-cook turkeys. Data were gathered over a period of 8 weeks from November 21, 1957 through January 9, 1958. Efforts were made to obtain all marketing costs for each shipment, the size of shipment, city of destination, and both the gross and net prices received for all grades and sizes of turkeys included in each shipment.

The prices received by the turkey processors varied from week to week. At the beginning of the trial price collection period, prices advanced, but during the last 3 weeks prices received by processors dropped. Heavy tom turkeys were the predominant class of birds moving in volume during the last few weeks of this trial reporting period (table 16).

Use of a Base Quotation

How does a turkey processor arrive at a price decision? Nearly all the turkey processors contacted, used as a base price a quotation published by a commercial price reporting firm in New York City. However, most of the processors negotiated with buyers for a gross selling price, either above or below the New York quotation. A few processors continuously received the inside quotation (lowest price in the range of quoted prices). For the relatively few sales where the New York quotation was not used as a base, the gross price was determined by offer, negotiation, and final acceptance.

Net Prices Compared with Wholesale Price Quotations

The difference between the gross price and net price received by processors was the transportation costs, brokerage fees, and cooling or refrigeration costs. One way of evaluating the net prices received by processors is to compare them with the base quotation. This was done by comparing weekly average wholesale prices in New York City as reported in the commercial price report and the weekly average net prices received at Iowa and Minnesota shipping points as reported by turkey processors. Net prices received by processors were below the New York wholesale price quotation by the following amounts: (1) Hens of all weights, 1.6 to 3.9 cents a pound; (2) toms 18 to 20 pounds, 2.2 to 3.8 cents a pound; and (3) toms 20 to 22 pounds, 1.5 to 3.8 cents a pound, and (4) fryer-roasters 4 to 10 pounds, 1.4 to 4.5 cents a pound, (data for the first three classes are shown in fig. 2). The average difference between the base quotation and the net price was 2.8 cents for all shipments of these four classes of turkeys. The average transportation cost was 1.1 cents a pound. The remainder of the difference of 1.7 cents can be partially explained by the discounts under the wholesale quotations, which may have reflected the bargaining position of individual processors. Also the size of the discount under the wholesale quotation was often related to sales where the buyer paid for the transportation. The destination of the shipment had a bearing on the amount of the discount too, because buyers in cities located near the production area generally purchased turkeys at a larger discount from the New York quotation than buyers in eastern or southern cities. Occasionally a brokerage fee, storage charge, or cooling cost was part of the marketing cost, but in this study these costs were minor in relation to the transportation cost.

Table 16.- Turkeys (ready-to-cook): Net prices per pound received at shipping points by turkey processors for sales in truck or carlots, Iowa and Minnesota, November 21, 1957-January 9, 1958

Week ending	Plants	Sales	Volume sold	Weekly net prices received		
				Range	Simple average	Weighted average
	Number	Number	Pounds	Cents	Cents	Cents
Fryers and roasters - 4 to 10 pounds						
Nov. 21	2	3	54,300	41.50-44.75	42.60	43.30
Nov. 29	2	2	182,000	40.50-44.75	42.75	44.20
Dec. 5	5	9	456,000	43.00-47.50	46.20	45.90
Dec. 12	2	2	116,000	43.00-49.00	46.00	44.90
Dec. 19	2	2	76,000	42.00-45.50	43.50	42.50
Jan. 9 1/	2	4	89,747	39.00-41.50	40.60	41.10
Hens - all weights						
Nov. 21	6	6	326,400	38.65-40.75	39.70	40.00
Nov. 29	5	6	231,394	39.50-42.00	40.50	40.70
Dec. 5	7	13	678,000	41.95-43.75	42.90	42.85
Dec. 12	3	3	87,276	40.00-42.75	41.75	41.80
Dec. 19	2	3	50,000	41.25-43.00	42.30	42.55
Jan. 9 1/ 2/	---	---	---	---	---	---
Toms - under 18 pounds						
Nov. 21	4	7	179,934	33.50-37.50	35.50	35.70
Nov. 29	2	2	3/	36.50-38.00	37.25	3/
Dec. 5	6	9	97,133	33.25-38.00	35.60	35.40
Dec. 12	4	5	4/70,000	32.00-35.25	33.40	3/
Dec. 19	4	7	75,333	31.00-33.00	31.70	31.60
Jan. 9 1/	1	1	10,000	32.00	32.00	32.00
Toms - 18 to 20 pounds						
Nov. 21	4	4	103,300	33.50-34.25	33.85	34.10
Nov. 29	2	2	3/	33.75-35.00	34.37	3/
Dec. 5	6	7	93,266	33.25-35.44	34.80	34.70
Dec. 12	3	4	4/20,000	32.00-35.25	33.40	3/
Dec. 19	4	7	76,333	31.00-33.00	31.70	31.60
Jan. 9 1/	2	2	23,713	31.90-32.00	31.95	31.95
Toms - 20 to 22 pounds						
Nov. 21	4	5	88,733	32.65-34.25	33.30	33.80
Nov. 29	2	2	3/	32.75-35.00	33.90	3/
Dec. 5	6	7	95,263	33.25-35.39	34.40	34.10
Dec. 12	3	4	3/	32.00-35.25	33.60	3/
Dec. 19	4	8	92,000	31.00-33.00	31.90	31.85
Jan. 9 1/	4	6	59,554	29.50-32.25	31.00	30.90
Toms - 22 pounds and over						
Nov. 21	2	3	15,400	32.65-33.65	33.20	33.25
Nov. 29	2	2	41,500	33.75-34.50	34.20	34.30
Dec. 5	4	7	126,000	33.50-35.50	34.30	33.70
Dec. 12	3	4	4/36,000	32.00-34.50	33.00	4/33.00
Dec. 19	3	7	130,000	31.75-34.00	32.80	32.95
Jan. 9 1/	3	11	155,554	30.50-37.40	33.80	5/

1/ Includes sales over a two week period, 12-20-57 through 1-9-58.

2/ No shipments sold.

3/ Too few shipments and insufficient volume data.

4/ Includes only 2 sales.

5/ Twenty-two different prices for the 11 sales, with insufficient price-volume breakdown for computation of a weighted average.

The transportation cost was paid by the processor on approximately 86 percent of the shipments. Shipments to midwestern cities moved from 100 to 300 miles with an average transportation cost of about 0.7 cent a pound, while shipments to eastern and southern cities cost an average of about 1.8 cents (table 17). A brokerage fee averaging about 0.3 cent a pound and a first-month storage cost of about 1.3 cents a pound were incurred on some shipments.

Table 17.- Turkeys ready-to-cook: Distribution costs per pound paid by turkey processors, Iowa and Minnesota, November 21, 1957 through January 9, 1958

Distribution cost	Midwestern cities			Eastern and southern cities		
	Ship- ments	Range in cost	Average cost	Ship- ments	Range in cost	Average cost
	No.	Cts.	Cts.	No.	Cts.	Cts.
Transportation cost	26	0.25-1.00	0.69	42	1.00-3.00	1.81
Brokerage fees	5	.25	.25	3	.25-0.50	.33
Storage costs (first month only)	3	1.25-1.50	1.33	0	0	0

The size of shipments ranged from 28,000 to 40,000 pounds, with approximately 70 percent falling within the range of 28,000 to 33,000 pounds. Approximately 88 percent of the shipments were by truck and 12 percent by rail.

When Was Net Price Known?

In most instances the net price was known on the day of sale or the day of shipment. In some cases the net price was not known until the shipment arrived at its destination point. Day of sale occasionally was considerably in advance of day of shipment. A few sales were made with apparently firm price commitments for shipments to be made over a period of several weeks.

Suggestions for Improvements

To be useful, market news price reporting should be timely and on a continuing basis while the crop is being marketed. Reported prices should be representative of current market values for the kind and class of the products being sold. Results obtained during the 1957 trial reporting period met these criteria only partly, but sufficient information was obtained to warrant continuation of the study in 1958.

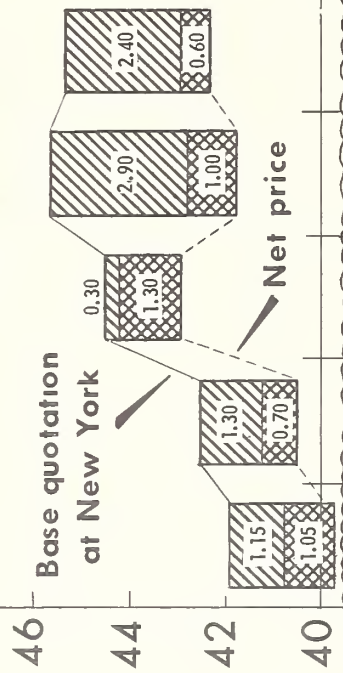
The reasons why shipping point net prices were not published as a market news service in 1957 were: (1) An insufficient number of sales was reported in all weeks except one, the week ending December 5, 1957, (2) only 14 plants cooperated by providing information on sales and prices received, and some of these plants had no sales during certain weeks, (3) some of the plants that co-operated supplied inadequate information so that only part of their data could be used, and (4) some plants sold their turkeys on a "forward" pricing basis thereby limiting their ability to report current prices.

READY-TO-COOK TURKEYS

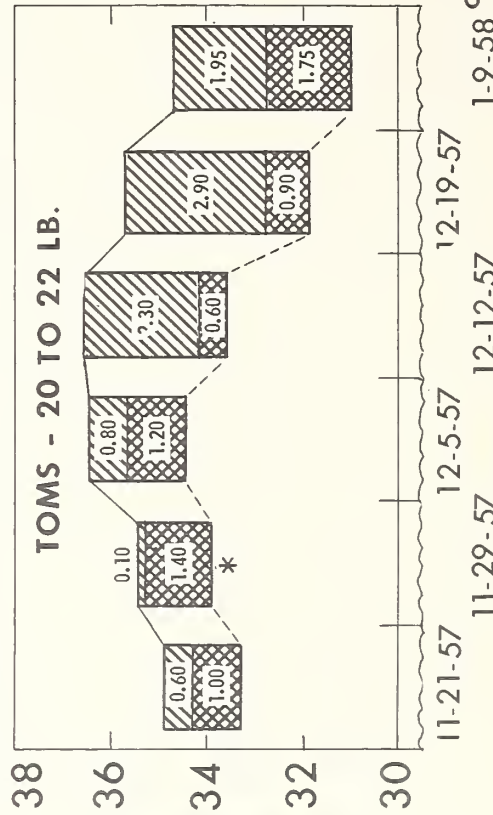
Spread Between Prices at New York City
and Net Prices Received by
Iowa and Minnesota Processors

--- Av. weekly base quotation
--- Discount under quotation
--- Transportation costs
--- Av. weekly net f.o.b. price

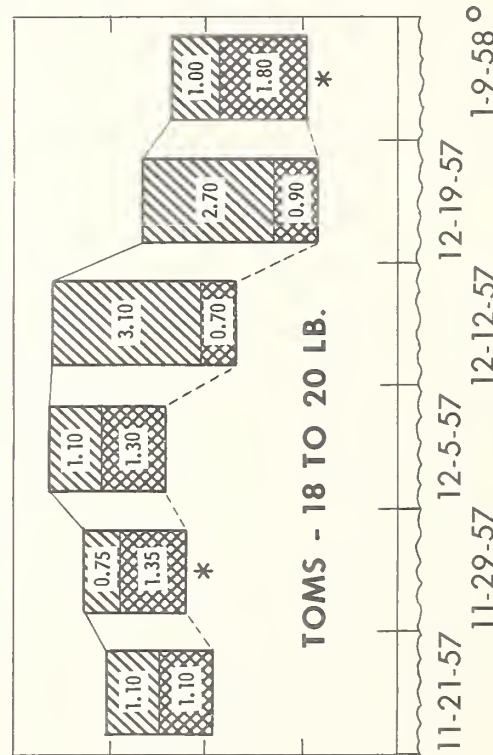
¢ PER LB. HENS - ALL WEIGHTS



TOMS - 20 TO 22 LB.



TOMS - 18 TO 20 LB.



* LESS THAN 3 NET PRICES OBTAINED

° INCLUDES DATA FOR 3 WEEKS, 12-20-57 THROUGH 1-9-58

Nevertheless, strong interest and excellent cooperation from many of the reporting plant managers indicated the need for shipping point price reports. The data obtained indicated differences in net prices which probably reflected a variation of bargaining power among the plants. Presumably some processing plants may be able to improve their net returns when it becomes possible to publish the prices received.

This summer and fall another attempt will be made to meet the criteria for providing useful market news reporting of net prices received in 1958 by:

- (1) Soliciting the cooperation of 24 additional turkey processors in the States bordering Iowa and Minnesota, (2) beginning weekly price collection when the crop starts to move in volume, and (3) issuing timely weekly reports when a sufficient volume of pricing information is obtained on a continuing basis.

